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June 1, 2011

The Honorable Dannel P. Malloy
Governor of the State of Connecticut
State Capitol
Hartford, Connecticut

Dear Governor Malloy:

I write to provide you with General Fund and Transportation Fund financial statements for Fiscal Year 2011 based on final monthly activity through April 30, 2011.

The Office of Policy and Management (OPM) is projecting a Fiscal Year 2011 General Fund surplus of $679.8 million, an increase of $170.2 million from last month’s revised forecast. Revenue estimates have increased $101.8 million this month, and spending estimates are $68.4 million lower than last month. The Transportation Fund is expected to close the fiscal year with a balance of $106.7 million. I am in agreement with these projections.

In light of the rising surplus projection, it is important to note that Fiscal Year 2011 General Fund operating expenditures are expected to exceed normal annual recurring revenue sources by $1,413,900,000. This operating deficit in the General Fund is more than eliminated by the following non-recurring budgeted resources for Fiscal Year 2011: $739.6 million in federal stimulus assistance, $646.6 million in borrowing through the issuance of Economic Recovery Revenue Bonds (which you intend to eliminate), $552.6 million in prior year reserves inclusive of $103.2 million from the Budget Reserve Fund, $114.9 million in various transfers from non-General Fund sources, and $40 million from electric ratepayer charges levied between January and June.

After inclusion of $2.1 billion in one-time receipts and consideration of current projections, the large Fiscal Year 2011 General Fund deficit of $1.4 billion becomes an operating surplus of $679.8 million on the modified cash basis of accounting.

Under current law (Public Act 09-3 JSS, section 511) any unappropriated surplus in the General Fund at the end of Fiscal Year 2011 shall be reserved for the redemption of outstanding Economic Recovery Notes. However, in accordance with the 2009 SEBAC agreement, the first $14.5 million of such surplus must be deposited to the Other Post Employment Benefit Trust Fund. You have indicated that a change in current law will be sought to utilize the surplus to eliminate electric rate payer backed Economic Recovery Revenue Bonds. As stated in the past, I support this effort. In addition, I hope you will consider seeking legislative authorization to apply any remaining surplus toward rebating CL&P electric rate payers for the 0.379 cents per kilowatt hour surcharge imposed between January and June 30th . This surcharge is projected to produce $40 million in additional General Fund revenue.

General Fund revenues for Fiscal Year 2011 are expected to exceed original budget estimates by $961.2 million. The largest gains are in the income tax ($497.5 million), the sales tax ($177.1 million), the inheritance tax ($144 million) and the corporation tax ($107.5 million). The income tax is showing its strongest gains in the estimated and final payment portion of receipts, both with double-digit growth rates.

Connecticut's improving economy is helping to increase revenues. For the twelve month period ending April the state has added 19,300 payroll jobs. While Connecticut's employment numbers have been trending upward, there has been significant fluctuation in the monthly figures. The state's unemployment rate remains historically high at 9.1 percent. Unemployment tends to be a lagging indicator of overall economic performance. Nationally, advance retail sales for April were up 7.6 percent continuing a solid trend in growth. Equity markets have trended positive from the lows of July 2010. Since hitting cyclical lows in the fourth quarter of 2008, corporate profits have been growing at some of the fastest rates in history over the last eight quarters. Connecticut's housing market continues to struggle with existing home sales declining in the 1st quarter of 2011.

Tempering the revenue gains are projected Fiscal Year 2011 General Fund agency deficiencies of $344.6 million. The deficiencies are largely attributable to higher program caseloads and the inability to achieve budgeted savings targets. The largest single deficiency totals $262 million within the Department of Social Services (DSS). As the economy has faltered, DSS has seen dramatic caseload increases in basic support programs. A positive development is the recognition of $52.4 million in Medicaid outlays to nursing homes in June. The original budget delayed these payments and did not recognize the cost in Fiscal Year 2011. This recognition of expenses is in accordance with Generally Accepted Accounting Principles. The net impact after federal reimbursement is $22.6 million. Overall net spending is anticipated to exceed the original budget by $281.4 million with deficiencies partially offset by other budget savings.

Fiscal Year 2010 ended with a reported Transportation Fund balance of $105.4 million. This year's operations and adjustments are expected to increase the balance to $106.7 million.

I also issue a Comprehensive Annual Financial Report (CAFR) that converts the budgetary based financial reporting to Generally Accepted Accounting Principles (GAAP). From a balance sheet prospective, the GAAP shortfall or unreserved fund balance in the General Fund was $1.7 billion as of June 30, 2010.

If you have any questions on this report, please do not hesitate to contact me.

Sincerely,

Kevin Lembo
State Comptroller